

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 L-03 H-02 PA-02 PRS-01 /113 W
-----128485 092211Z /15

R 091834Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3888
DEPARTMENT TREASURY
INFO AMEMBASSY TOKYO
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY BRUSSELS

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: GERMAN REACTION TO DOLLAR DECLINE

REF: BONN 20298, BONN 20153

1. SUMMARY -- GERMAN REACTION TO THE RECENT DOLLAR
SLUMP HAS BEEN A GENERAL EXPRESSION OF CONCERN
THAT GERMAN EXPORTS WOULD BE DETRIMENTALLY AFFECTED
MIXED WITH COMPLAINTS THAT U.S. AUTHORITIES HAVE
REMAINED INACTIVE INSTEAD OF COUNTERATTACKING THE
DOLLAR'S WEAKNESS. THE U.S. IS CALLED UPON TO TAKE
EFFECTIVE MEASURES TO REDUCE ITS TRADE DEFICIT.
MOST OBSERVERS FEEL THE DOLLAR IS CURRENTLY UNDERVALUED,
AND THAT SPECULATION CONTRIBUTED TO THE DOLLAR'S
WEAKNESS. THE FOLLOWING IS A ROUND-UP OF RECENT
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STATEMENTS BY GERMAN POLITICAL AND ECONOMIC LEADERS
AND A SUMMARY OF PRESS COMMENTS. (FOR STATEMENTS
OF FINANCE MINISTER APEL AND ECONOMICS MINISTER
LAMBSDORFF SEE BONN 20298 AND BONN 20153.) END SUMMARY.

2. IN A SPEECH THURSDAY TO THE SOUTHERN WESTFALIAN
CHAMBER OF COMMERCE, FINANCE MINISTER APEL EMPHASIZED

THAT "THERE IS NO DOUBT THAT THE DOLLAR IS UNDER-
VALUED CURRENTLY AND THE MARK IS OVERVALUED". APEL
ALSO SAID, HOWEVER, THAT THERE IS NO REASON FOR VIEWING
THE CURRENT SITUATION ONLY WITH PESSIMISM BECAUSE
TWO-THIRDS OF GERMANY'S EXPORTS ARE ABSORBED BY
NEIGHBORING EUROPEAN COUNTRIES AND ONE-FOURTH BY
COUNTRIES AFFILIATED WITH THE EUROPEAN JOINT FLOAT.
FOR THIS VERY REASON, THE FINANCE MINISTER CONTINUED,
THE FRG COULD NOT AFFORD TO LEAVE THE FLOAT.
APEL SAID IT IS IMPORTANT THAT U.S. AUTHORITIES RECOGNIZE
THE CURRENT PROBLEMS, BUT THAT THE FEDERAL REPUBLIC
MUST MAKE ITS CONTRIBUTION. THIS COULD, AMONG OTHER THINGS
BE DONE BY AN INTEREST RATE REDUCTION IN THE FRG IN
ORDER TO MAKE THE DEUTSCHEMARK LESS ATTRACTIVE.
ABRUPT CHANGES IN THE VALUE OF THE DEUTSCHEMARK WOULD
WEAKEN THE GERMAN ECONOMY'S FUNCTION AS A LOCOMOTIVE OF
INTERNATIONAL ECONOMIC GROWTH, HE SAID

3. BUNDESBANK PRESIDENT EMMINGER IN A SPEECH BEFORE THE
ASSOCIATION OF GERMAN SAVINGS BANKS CONSIDERED THE
DRASTIC DOLLAR SLUMP EXCESSIVE AND UNCONNECTED TO "ANY
ORIENTATION ON OBJECTIVE DATA". HE SAID THE BUNDESBANK
WOULD NOT ANNOUNCE A LINE OF DEFENSE AT WHICH IT WOULD
INTERVENE IN SUPPORT OF THE DOLLAR AS THIS WOULD BE AN
INVITATION FOR SPECULATORS AND COULD LEAD TO VOLUMINOUS
OFFERS OF DOLLARS. EMMINGER SAID THAT IN THE CURRENT
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SITUATION THE BUNDESBANK HAD NO OTHER CHOICE BUT TO
PURSUE "AN ELASTIC DEFENSE" POLICY IN SUPPORT OF
THE U.S. CURRENCY.

IN EMMINGER OPINED THAT THE DOLLAR DECLINE
CHIEFLY RESULTED FROM AMERICAN OIL IMPORTS AND THE U.S.
DEFICIT IN TRADE WITH JAPAN. EMMINGER URGED THE U.S.
TO "PROVE THAT THEY ARE ABLE TO GRADUALLY REDUCE
THEIR BALANCE OF PAYMENTS DEFICIT BY EFFECTIVE ENERGY
AND ANTI-INFLATIONARY POLICIES".

EMMINGER ALSO EXPRESSED CONCERN THAT THE STRONG

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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 L-03 H-02 PA-02 PRS-01 /113 W
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R 091846Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3889
DEPARTMENT TREASURY
INFO AMEMBASSY TOKYO
AMEMBASSY PARIS
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DM REVALUATION WOULD HAVE DETRIMENTAL EFFECTS ON THE
GERMAN EXPORT SECTOR AND MAY PUT FURTHER PRESSURE ON
ALREADY WEAK GERMAN INDUSTRIAL BRANCHES.

IN A TELEVISION INTERVIEW IN THE EVENING OF DECEMBER 8
EMMINGER REITERATED POINTS MADE ABOVE AND ADDED SHOULD
THE DOLLAR/DEUTSCHEMARK EXCHANGE RATE STABILIZE AT THE
CURRENT LEVEL THERE WOULD BE REPERCUSSIONS ON GERMAN
ECONOMIC POLICY AND THE BUNDESBANK WOULD HAVE TO RE-
EXAMINE ITS MONETARY POLICY.

4. IN AN EDITORIAL IN THE FRANKFURTER ALLGEMEINE
ZEITUNG, FORMER MEMBER OF THE BUNDESBANK DIRECTORATE
JOHANNES TUENGELER WROTE THAT DEVELOPMENTS OF
THE DOLLAR RATE COULD NOT BE LEFT COMPLETELY TO MARKET
FORCES BECAUSE THE DOLLAR IS STILL A RESERVE CURRENCY
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AND THE MAJOR CURRENCY USED IN WORLD TRADE AND INTER-
NATIONAL CAPITAL TRANSACTIONS. TUENGELER FEELS SOME
U.S. PERSONALITIES HAVE FORGOTTEN THE DOLLAR'S SUPRA-
NATIONAL CHARACTER. TUENGELER PRESCRIBES THE
FOLLOWING MEASURES TO RESTORE CONFIDENCE IN THE DOLLAR:

A) A FAST DECISION ON THE U.S. ENERGY PROGRAM ;

- B) U.S. SHOULD REFRAIN FROM ANY EFFORTS TO USE EXCHANGE RATE MANIPULATION AS TRADE POLICY MEASURES; AND
- C) PRICE SUPPORT ACTIONS FOR THE DOLLAR SHOULD BE UNDERTAKEN BY RESPONSIBLE U.S. AUTHORITIES. SUCH ACTIONS SHOULD NOT BE LIMITED TO "SMOOTHING" OPERATIONS, BUT IN CASE OF CLEARLY RECOGNIZABLE SPECULATIVE ATTACKS THE FEDERAL RESERVE SHOULD INTERVENE MASSIVELY"AS HAS ALWAYS BEEN DONE BY OTHER CENTRAL BANKS ".

5. IN A RADIO INTERVIEW THE PRESIDENT OF THE GERMAN CHAMBER OF COMMERCE, WOLFF VON AMERONGEN, CRITICIZED U.S. MONETARY AUTHORITIES FOR HAVING ACCEPTED THE DOLLAR DECLINE "MORE OR LESS PASSIVELY". THINGS SHOULD BE TAKEN UP "IN ALL SERIOUSNESS" WITH WASHINGTONHE SAID.

6. PROFESSOR GUTOWSKI, A MEMBER OF THE COUNCIL OF ECONOMIC EXPERTS, TOLD THE FRANKFURTER ALLGEMEINE ZEITUNG THAT IN HIS VIEW THE CURRENT DOLLAR RATE IS UNREALISTIC. HE FEELS THAT DUE TO THE ECONOMIC STRENGTH OF THE UNITED STATES, THE POSITION OF THE DOLLAR IS MUCH BETTER THAN INDICATED BY ITS EXCHANGE RATE. IN ADDITION, IMPORTANT U.S. ECONOMIC INDICATORS SUGGEST THAT NEXT YEAR THE U.S WILL HAVE BETTER CHANCES THAN THE

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FRG. GUTOWSKI INDICATED THE CURRENT ACCOUNT DEFICIT OF THE U.S. COULD EASILY BE FINANCED BY CAPITAL IMPORTS SINCE THE U.S. IS STILL THE BEST COUNTRY FOR CAPITAL INVESTMENTS. GUTOWSKI, HOWEVER, DOES NOT EXCLUDE THE POSSIBILITY OF A GRADUAL REVALUATION OF THE DEUTSCHEMARK IN THE LONG RUN SINCE IN THE FUTURE PRICE INCREASES

IN THE FRG MAY BE LOWER THAN DEVELOPMENTS IN MOST OTHER COUNTRIES.

7. PRESS COMMENT:
DIE WELT:" THE GERMAN ECONOMY HAS SURVIVED MANY MONETARY CRISES AND HAS LEARNED TO LIVE WITH A CONSTANT UPWARD VALUATION OF THE DEUTSCHEMARK. THEREFORE THE RECENT PRESSURE FOR ITS UPWARD REVALUATION HAS FAILED TO SPARK A PANIC. NEVERTHELESS, EVENTS ON THE MONETARY FRONT MUST NOT BE TAKEN LIGHTLY. THE GERMAN ECONOMY'S COMPETITIVE STRENGTH IS WANING..... AND THE TEMPO OF ECONOMIC GROWTH WILL DIMINISH. THIS WILL AFFECT EMPLOYMENT. THUS, EVENTS ON THE MONETARY FRONT AFFECT ALL OF US. THE AMERICANS PLAY A KEY ROLE IN THIS EVENT. UNLESS THEY MAKE SERIOUS EFFORTS TO CUT BACK THEIR OIL

IMPORTS THEY WILL CREATE TROUBLE FOR THE ENTIRE
WESTERN WORLD. LET US HOPE THAT THEY WILL FINALLY BECOME
AWARE OF THEIR POLITICAL RESPONSIBILITY."

HANDELSBLATT:....THE US FEDERAL RESERVE

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CEA-01 L-03 H-02 PA-02 PRS-01 /113 W
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R 091846Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3890
DEPARTMENT TREASURY
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RESTRICTED ITSELF TO SPORADIC INTERVENTION. NO LEADING
AMERICAN PERSONALITY HAS MADE AN ATTEMPT TO LEND THE
DOLLAR EVEN VERBAL SUPPORT. EVEN MR. BLUMENTHAL -
WHO WAS SO LOQUACIOUS UNTIL RECENTLY - KEEPS SILENT.
ALL THIS INDICATES THAT THE DECLINE OF THE DOLLAR
IS NOT FROWNED UPON IN THE US..."

RHEINISCHE POST: ".....WE CANNOT DISMISS SUSPICION THAT
THE CARTER ADMINISTRATION WELCOMES A WEAK DOLLAR,
EVEN THOUGH ITS WEAKNESS CANNOT BE JUSTIFIED BY THE STATE
OF THE US ECONOMY OR THE AMERICAN INTEREST RATE LEVEL.
BY A WEAK DOLLAR THE US APPARENTLY WANTS TO IMPROVE ITS
EXPORT CHANCES AND CURB IMPORTS. IN HIS MOST RECENT

VISIT IN BERLIN, SECRETARY BLUMENTHAL MADE EVERY EFFORT
TO CONVINCE US THAT THIS IS NOT SO, BUT CONFIDENCE IN
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A CURRENCY CANNOT BE GENERATED BY VERBAL ASSURANCES. THE
POLITICAL AND ECONOMIC ALLIES OF THE US EXPECT THE
CARTER ADMINISTRATION TO DO ITS SHARE IN DEFENDING THE
DOLLAR. IN JANUARY, IF NOT EARLIER, CHANCELLOR SCHMIDT,
WHO DOES NOT HESITATE TO BE FRANK WITH FRIENDS, WILL

HAVE AN OPPORTUNITY TO LET PRESIDENT CARTER KNOW WHAT HE
THINKS OF ALL THIS."
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Message Attributes

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Decaption Note:
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Disposition Event:
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